

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 NEA-10 ISO-00 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01

SPC-03 SS-20 USIA-15 ACDA-19 IO-14 AID-20 COME-00

FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01

OMB-01 SAJ-01 STR-08 MC-02 DRC-01 /220 W

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 8016

INFO AMEMBASSY MOSCOW

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

S E C R E T NEW DELHI 13601

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SUBJECT: RESCHEDULING INDIA'S DEBT TO EAST
EUROPE AND THE USSR

FOLLOWING SUMMARIZES NEW DELHI'S A-393 BEING
POUCHED TO DEPT AND EAST EUROPEAN POSTS NOV 23:

1. THE UNITED STATES AND ANUMBER OF OTHER
COUNTRIES HAVE BY NOW AGREED FOR THE SIXTH SUCCESSIVE
YEAR TO PARTICIPATE IN AN AID-INDIA CONSORTIUM DEBT
RESUCHEDULING EXERCISE. FOR THE LAST TWO
YEARS, THE CONSORTIUM HAS ASKED INDIA TO SEEK
COMPARABLE RELIEF FROM NON-CONSORTIUM
DONORS, ESPECIALLY THE SOVIET UNION, BUT INDIA HAS NOT YET
ADDRESSED THIS ISSUE DIRECTLY.

2. INDIA OWES EAST EUROPE THE EQUIVALENT OF ABOUT
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DOLS 1 BILLION, DOLS 900 MILLION OF WHICH IS TO THE

USSR. HALF OF THAT SUM IS ON MILITARY ASSISTANCE ACCOUNT. FOR SEVERAL YEARS, INDIAN DEBT SERVICE PAYMENTS TO EAST EUROPE AND THE SOVIET UNION HAVE EXCEEDED NEW DRAWDOWNS OF AID BY A STEADILY GROWING MARGIN. BECAUSE, HOWEVER, INDIAN AID AND TRADE RELATIONS WITH THE BLOC ARE CONDUCTED ON THE BASIS OF THE "RUPEE PAYMENTS SYSTEM," INDIAN RUPEE DEBT SERVICE PAYMENTS ARE NOT DIRECTLY COMPARABLE TO INDIA'S CONVERTIBLE CURRENCY MULTILATERAL PAYMENTS TO CONSORTIUM COUNTRIES. MORE RELEVANT TO AN UNDERSTANDING OF THE CURRENT STATE OF INDIA'S AID RELATIONSHIP WITH THE BLOC IS AN ANALYSIS OF REAL RESOURCES TRANSFERS BETWEEN THE TWO AREAS. SUCH AN ANALYSIS REVEALS THAT INDIA, FAR FROM BEING A NET RECIPIENT OF BLOC RESOURCES, IN 1973 SHIPPED ABOUT DOLS 165 MILLION OF NET RESOURCES TO THE USSR. WERE IT NOT FOR LARGE INDIAN RECEIPTS OF BLOC MILITARY EQUIPMENT, THE OUTFLOW WOULD HAVE BEEN MUCH LARGER.

3. A SUBSTANTIAL PROTION OF COMMODITIES SHIPPED TO EAST EUROPE AND THE USSR UNDER RUPEE PAYMENT ARRANGEMENTS COULD PRESUMABLY BE SOLD FOR HARD CURRENCY ON WESTERN MARKETS. SUCH SALES WOULD EARN INDIA FREE FOREIGN EXCHANGE RATHER THAN LEAK RESOURCES TO THE BLOC. INDIA HAS, HOWEVER, IMPORTANT POLITICAL AND IDEOLOGICAL ATTACHMENTS TO THE RUPEE TRADE. BECAUSE THE RUPEE TRADE UNDERPINS INDIA'S MILITARY SUPPLY RELATIONSHIP WITH THE BLOC, POLICY-MAKERS IN NEW DELHI ARE RELUCTANT TO TAMPER WITH IT, AND CAN BE EXPECTED TO BE ESPECIALLY CHARY OF DOING SO AT THE BEHEST OF THE UNITED STATES AND ITS CONSORTIUM PARTNERS. THE CONCLUSION IS INESCAPABLE THAT IN THE PRESENT SITUATION, CONSORTIUM RESCHEDULING OF INDIAN DEBT IN EFFECT FACILITATES INDIAN REUPEE TRADE IMPORTS, ALMOST ONE-HALF OF WHICH IS SOVIET MILITARY EQUIPMENT, INDIANS GENERALLY LOOK ON SALES TO THE BLOC AS WELCOME ADDITIONS TO EXPORTS. BUT TRANSFER OF RESOURCES TO THE BLOC IS PRIVATELY EMBARRASSING TO SOPHISTICATED TRADE OFFICIALS. THEY WOULD LIKE TO STOP IT BY REDUCING EXPORTS OF PRIMARY PRODUCTS WHICH COULD BE SOLD FOR HARD CURRENCY (SUBSTITUTING MANUFACTURES UNMARKETABLE IN THE WEST), AND BY INCREASING IMPORTS OF BASIC IMPUTS NEEDED BY INDIA.

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THE FUNDAMENTAL NON-COMPLEMENTARITY OF INDIAN AND BLOC ECONOMIES, HOWEVER, MILITATES AGAINST LATTER APPROACH.

4. WHETHER OR NOT THE UNITED STATES SHOULD TRY TO MAKE FURTURE CONSORTIUM RESCHEDULINGS CONTINGENT ON INDIA'S OBTAINING COMPARABLE RELIEF FROM THE BLOC IS A COMPLICATED QUESTION ON WHICH OTHER CONSIDERATIONS ALSO BEAR IMPORTANTLY. BECAUSE ANY SUCH US MOVE

WOULD IMPACT ON INDO-US RELATIONS, A DECISION WOULD
HAVE TO BE MADE IN CONTEXT OF THE
TOTALITY OF THOSE RELATIONS. OVERALL US AID POLICY
AND POLICY ON AID TO INDIA WOULD ALSO NEED TO BE
TAKEN INTO ACCOUNT. THESE AND OTHER ASPECTS OF THE
COMPLEX DEBT RESCHEDULING ISSUE REQUIRE AND
DESERVE SEPARATE INTEGRATED ANALYSIS.
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